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FROM THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS CANADA (OSFI)

Senior Supervisors Group Reports on Risk Management Practices

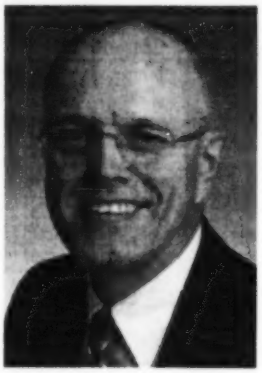
Senior financial supervisors from seven countries (collectively the "Senior Supervisors Group") on October 22nd issued a report that evaluates how weaknesses in risk management and internal controls contributed to industry distress during the financial crisis.

The report—Risk Management Lessons from the Global Banking Crisis of 2008—reviews in detail the funding and liquidity issues central to the recent crisis and explores critical areas of risk management practice in need of improvement across the financial services industry.

The report concludes that despite firms' recent progress in improving risk management practices, underlying weaknesses in governance, incentive structures, information technology infrastructure and internal controls require substantial work to address.

The observations and conclusions in the report reflect the results of two initiatives undertaken by the SSG. These initiatives involved a series of interviews with firms about funding and liquidity challenges and a self-assessment exercise in which firms were asked to benchmark their risk management practices against a series of recommendations and observations taken from industry and supervisory studies published in 2008.

This report represents a joint effort on the part of nine supervisory agencies, including the Office of the Superintendent of Financial Institutions Canada, the French Banking Commission, the German Federal Financial Supervisory Authority, the Japanese Financial Services Agency, the Swiss Financial Market Supervisory Authority, the U.K. Financial Services Authority, and, in the United States, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Federal Reserve.



OSFI Asst. Superintendent
Supervision Sector
Ted Price

These initiatives were conducted to support the priorities of the Financial Stability Board, whose mission is to address vulnerabilities affecting the financial system and to promote global financial stability.

To view the complete report, visit the OSFI web site at: www.osfi-bsif.gc.ca

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OSFI 2008-2009 Annual Report Tabled in Parliament

The following is an excerpt from the Superintendent's Message in the 2008-2009 OSFI Annual Report

The theme of this year's OSFI Annual Report — Prudential Regulation in Challenging Times — is less a theme than it is a statement of fact. The turmoil in financial systems around the world and the challenges faced by regulators, OSFI included, are myriad. The first wave — global financial market turmoil — began in August 2007 and banks around the world were hit hard. The Canadian banking system entered this period well prepared, with high levels of quality capital and prudent leverage ratios, which have enabled it to weather the challenges better than many of its global counterparts.

(Cont'd page2)

Dickson: Superintendent's Message from OSFI Annual Report... (cont'd from page 1)

Because the Canadian financial system withstood the first wave — global financial market turmoil — better than many systems, OSFI has received a lot more attention than we normally do, and fielded many questions as to why Canada has faired relatively well. Our answer has been that the strength of the Canadian system is due to Canada's overall policy framework, the quality of OSFI's supervision and regulation, cooperation and communication among Financial Institutions Supervisory Committee (FISC) partners (OSFI, the Bank of Canada, the Canada Deposit Insurance Corporation, the Financial Consumer Agency of Canada and the Department of Finance) and the risk management skills of Canada's financial institutions. The contributions of all the players in the system have led to Canada's success to date.

Another element that played a role in Canada's success is OSFI's clear mandate and accountability, which drives all of our activities and requires a focus on solvency. Focus and specialization (i.e., OSFI's mandate does not include monetary policy, market conduct, or consumer protection) bring benefits, especially the more complex an industry becomes.

While recognizing that failures can occur, the OSFI mandate clearly emphasizes early intervention and the need to act expeditiously to reduce the risk of failure. The spring 2009 G-20 report recommended that the mandates of regulators and central banks and others take account of financial system stability. Further, as noted by the G-20, a system-wide view or macro-prudential overlay is a supplement to sound micro-prudential regulation — not a replacement. Taking account of financial stability is a natural evolution of the current OSFI mandate, since a stable system cannot exist in the face of weak banks or weak regulation and supervision.

Throughout 2008-2009, OSFI worked actively internationally with other members of the Basel Committee on Banking Supervision (BCBS) and the international Senior Supervisors Group. We also participated in meetings of the Financial Stability Board (formerly known as the Financial Stability Forum) and the International Association of Insurance Supervisors. These forums are important, and in 2008-2009, they also represented a way to enhance communication with international peers on the day-to-day challenges that arose as the global banking system faced considerable stress. Areas under review in these international forums include the need to develop a better capital framework, the need for enhanced oversight over liquidity, the need to review incentives and compensation systems to ensure they will not reward unacceptable levels of risk taking, and the need to shine more light onto unregulated parts of the financial system.

Risk and uncertainty continue and the recession is expected to have a significant impact on the institutions and pension plans we oversee. There can be no resting on laurels. At OSFI we will continue our rigourous oversight and our participation in international discussions.

While OSFI's mandate, philosophy and independence are key elements in how we fulfill our role, our success would not be possible without OSFI's greatest resource: its people. This past year has called for unprecedented levels of dedication from all parts of our organization, and I would like to express my appreciation for all their efforts.

To view the complete annual report, visit the OSFI web site at: www.osfi-bsif.gc.ca

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Quantitative Impact Study (QIS) - Minimum Continuing Capital and Surplus Requirements (MCCSR) Standardized Approach - Market Risk and Credit Risk

As outlined in previously posted documents entitled Framework for a New Standard Approach to Setting Capital Requirements (November 2008) and Standardized Approach for Calculating the Solvency Buffer for Market Risk (November 2008), the Standardized Approach Working Group (SAWG), with representatives from OSFI, Assuris and the AMF, has begun development of the future MCCSR standardized approach.

The SAWG is now undertaking the first quantitative impact study (QIS) for the new MCCSR standardized approach. This QIS covers the market and credit risk components of the new approach. The main purpose of the QIS is to test the practicality of the methods being proposed for the new components as well as to estimate the potential impact of adopting these components.

This QIS has been sent to all federally regulated life insurers, who are being asked to respond by December 11, 2009.

To view complete documents related to the above, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI Releases Estimated Solvency Ratio (ESR) for Federally Regulated Private Pension Plans

On Thursday, October 22, 2009, OSFI made public the results of its latest solvency testing of federally regulated private pension plans.

As part of its regular monitoring activities, every six months OSFI estimates the ratio of plan assets to plan liabilities for the 400 defined benefit plans it regulates. OSFI follows up with individual pension plans where the results raise potential concerns.

The latest results show that the average estimated solvency ratio of federally regulated defined benefit private pension plans at June 30, 2009 was 0.88, meaning the total value of assets of all federal plans was 12 per cent lower than liabilities, calculated on a solvency basis. This compares to an estimated solvency ratio of 0.85 in December 2008.

"These results show a very modest improvement overall from the December 2008 results," said Judy Cameron, Managing Director of OSFI's Private Pension Plan division. "The estimated solvency ratios are impacted by interest rates and investment performance, including equity and bond market movements. The June 2009 results demonstrate the importance of continued vigilance and attention to managing the risks associated with pension plans."

The private pension plans subject to OSFI regulation currently represent seven per cent of all private pension plans in Canada, accounting for approximately 12 per cent of private pension assets.

To view the complete news release, visit the OSFI web site at: www.osfi-bsif.gc.ca

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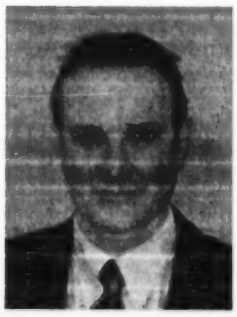
OSFI Pleased to Welcome Toni Lobo and Walter Engert

Toni Lobo has joined OSFI as the Managing Director, Credit Risk Division, Supervision Support Group, effective August 17 2009, within the Supervision Sector, in Toronto.

Toni brings over 18 years' experience in credit risk management covering global trading rooms in Toronto, Montréal, Calgary, Vancouver, New York and London, and over 30 years of banking experience, including retail banking, retail brokerage, internal audit, commercial banking, large corporate banking, investment banking and risk management.

She also has significant expertise in all traded products, including foreign exchange, interest rate, commodities, options and complex derivatives.

Toni was most recently the Vice President of Trading & Securitization Credit Risk Management at CIBC.



Walter Engert joined OSFI as Senior Director of Research, effective October 19, 2009, within the Regulation Sector, in Ottawa.

Walter brings to OSFI a great deal of experience in conducting and supervising research on monetary policy, financial system efficiency, financial stability, financial system regulation, and payments, clearing and settlement systems.

He is also well versed in assessing economic and financial developments in Canada, and has expertise in policy analysis and development.

Walter comes to OSFI after spending over 20 years at the Bank of Canada. He also spent a few years at the International Monetary Fund in Washington, DC, where he was an advisor to an Executive Director of the IMF Board.

Chief Actuary Jean-Claude Ménard's remarks to Parliament's Status of Women Committee

The following is a brief excerpt from the Chief Actuary's opening statement on the issue of Pension Security.

Chief Actuary
Jean-Claude Ménard

Whenever a Bill is introduced before Parliament that has a significant impact on the financial status of a public pension plan falling under the statutory responsibilities of the Office of Chief Actuary (OCA), the OCA must submit an actuarial report to the appropriate minister.

The most recent report assessing the financial impact of the proposed changes for the Canada Pension Plan included in Bill C-51 was tabled before the Parliament on October 19, 2009. This report confirmed that if the current Plan is amended, with current economic conditions taken into consideration, a legislated contribution rate of 9.90 per cent for years 2010 and thereafter would be sufficient to financially sustain the Plan.

The status of women within the Canadian pension system is not the same today as it was 30 or 40 years ago. Historically, women had more interrupted work history, lower earnings, and as a result lower retirement pensions as compared to men. Presently, the gap in CPP pensions between males and females is narrowing even if it is not expected to disappear completely.

Labour market participation for women has increased over the years. Based on the most recent CPP Actuarial Report, the overall labour force participation rates in Canada from 1976 to 2006 clearly show a narrowing of the gap between male and female rates. While this gap was 32 per cent in 1976, it has narrowed to 10 per cent in 2006, and it is expected to narrow further but at slower pace. This trend is also well pronounced in the registered pension plans (RPP) coverage. The proportion of female RPP members increased from 35 per cent, 20 years ago, to 49 per cent in 2007.

In 2007, 2.9 million females participated in the RPP as compared to only 1.7 million in 1987. For all paid workers, the proportion of female RPP members is now higher than for men, a situation that had not been seen before 2005.

To view the complete remarks, visit the OSFI web site at: www.osfi-bsif.gc.ca

What's New Online (www.osfi-bsif.gc.ca)

Draft Advisory - Conversion to IFRS

The Draft Advisory on the Conversion to International Financial Reporting Standards by Federally Regulated Entities outlines OSFI's expectations and requirements for the implementation of International Financial Reporting Standards (IFRSs) – as well as additional requirements on the filing of IFRS Progress Reports and the first quarter regulatory financial returns filed with OSFI under IFRSs.

OSFI is seeking comments on the Draft Advisory by December 31, 2009.

LIFE-2 and P&C-2 Interim Returns 2010

OSFI has posted on its website the final versions of the Life-2 and P&C-2 Interim Returns, effective for Q1 2010.

To view complete documents for the above items, visit the OSFI web site at: www.osfi-bsif.gc.ca

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The OSFI *Pillar*

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